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SUBJECT: FIRST OFFICIAL DONOR MEETING WITH NEW DRC PRIME MINISTER MUZITO

REF: KINSHASA 426

¶1. (U) Summary: A group of heads of development and cooperation agencies from key donor countries met with new Democratic Republic of the Congo (DRC) Prime Minister Adolphe Muzito on November 22, ¶2008. The discussion lasted for approximately 90 minutes and touched upon the Prime Minister's new program for the Government of the Democratic Republic of the Congo (GDRC), on the multi-billion dollar Sino-Congolese agreement concluded in early 2008 (reftel), the GDRC's budget situation, and the possibility of donors providing direct budgetary support. The meeting was called by the Prime Minister to allow him an opportunity to solicit information about donor activities in the DRC in advance of a meeting with Ambassadors from donor countries, planned for the week of December 1. End Summary.

¶2. (U) Prime Minister Muzito called together the heads of development and cooperation agencies from key Coordination Assistance Framework (CAF) group donors at his residence for a breakfast meeting at 7:30 am on Saturday November 22. A total of twelve representatives were present at the meeting (World Bank, African Development Bank, European Union, France, Belgium, Italy, Netherlands, United States, United Kingdom, Germany, Sweden, and Canada). USAID Officer in Charge, Jeff Bryan, participated for the USG.

¶3. (U) The meeting opened with an introduction from the Prime Minister's assistant who explained the purpose of the meeting as an opportunity for the Prime Minister (PM) to hear from key donors regarding their actual and planned contributions in support of the new government program presented on October 31. The PM wanted to hear from donors in advance of his meeting with Ambassadors in order to have a better understanding of what the various donors were doing in the DRC. The PM welcomed the group and provided a few opening remarks and then called on a few representatives from the donor group to give a presentation of donor assistance.

¶4. (U) Marie-Francoise Marie Nelly, representative of the World Bank for the DRC and the Republic of Congo, opened the presentations with an overview of the Coordination Assistance Framework (CAF) process and Priority Action Plan (PAP), noting that this was a collaborative process with government and that the donor group was actively engaged with the GDRC in aligning aid with government's development agenda - the Poverty Reduction Strategy Paper.

¶5. (SBU) Medjomo Coulibaly, the African Development Bank (ADB) representative, followed with the most substantial comments from the group, raising the issues of performance and transparency as limiting factors to donor engagement. He made it quite clear that assistance from the ADB (and by implication donor assistance in general) was clearly related to government's ability to perform and account for assistance, and that the government could increase assistance by being more accountable.

¶16. (SBU) PM Muzito responded to ADB comments by likening the GDRC to a sick person who needs special attention and care in order to recover - making the point that donor standards should be less stringent for a post-conflict country. He stated that the GDRC's poor ability to perform was a direct result of insufficient resources, so that budgetary support from donors would be the solution. The PM returned to the budget level for government, repeating several times that with a budget of between USD 1-2 billion per year "for a sub-continent" that there was no way to make rapid progress on transparency and governance. He also made a reference to the corrupt and ineffective military with regard to operations in eastern DRC as a case in point of the effects of insufficient resources.

¶17. (SBU) The PM raised the issue of the multi-billion dollar Sino-Congolese agreement concluded in early 2008 (reftel), in the context of the GDRC's budget dilemma. "We entered the community of nations through you, the West", the PM stated, "and we are most comfortable together with you." He went on to say that the Congolese were new partners with the Chinese and had not yet developed a bond of friendship, but rather a business relationship. If the donors at the table were able to bring billions of dollars of investment to bear, the PM suggested that the GDRC would prefer to work with Western donors. However, given the DRC's actual budget situation, working with the Chinese investment was strictly a business proposition. Regarding a planned feasibility study, the PM noted that it would be completed by March. The PM then noted that one of his first priorities was to "split" the Chinese investment package into a Phase I and a Phase II, which would be intended to help avoid the concessionality and debt sustainability questions that have so far plagued the deal and distanced the GDRC from reaching the Highly

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Indebted Poor Countries (HIPC) completion point. The PM noted that he hoped to have this completed in time for an upcoming visit by the International Monetary Fund (expected on or about December 9).

¶18. (SBU) The PM then called for comment from a representative of the bilateral donors present, and Alessandro Palmero of the European Commission made a few comments touching upon the Paris declaration - noting that there are provisions in the declaration for making aid more effective specifically in post-conflict countries. He also noted that with the new government it was unclear in some cases who the main interlocutor should be for donor countries - asking that there be some clarification to the CAF group regarding the roles that new ministers would play. Palmero went on to note that direct budget support was highly unlikely in the current environment in the DRC. This brought about a few more comments from the PM on the topic of the GDRC's position being unlikely to improve without resources. Finally, Palmero noted that the donor group had no problem with the GDRC's decision to work with China on the minerals investment package, trying to avoid developing an active split between the CAF donor group and China.

¶19. (U) Belgian cooperation head Paul Cartier made a few comments on the functioning - or non-functioning - of Thematic Groups for donor-government coordination, noting that they had strayed far from the conception in the Paris meetings of November 2007 and are in serious need of refocusing as a forum for high-level exchange between donors and key ministers. This brought about a comment from the PM that he would begin a series of regular meetings with key ministers overseeing thematic groups in order to keep them focused on priorities and moving forward.

¶10. (U) Finally, the PM asked for comments from donors on what their contributions could be to help bring about peace in Eastern DRC. The World Bank and ADB reps commented again here, each noting that they were implementing some projects in the east. This subject did not lead to much in-depth discussion, however, and the meeting adjourned without further discussion of peace and security issues.

¶11. (SBU) Comment: It is an encouraging sign that the new Prime Minister requested a consultation meeting with key donors, appearing to establish a new engagement with donors that could signal an improvement in donor-government coordination. The issue of direct budget support will clearly continue to figure in the PM's agenda

with donors, but his reaction to donor responses that this was unlikely suggests that he will adopt a pragmatic approach to increasing donor engagement in the DRC's budget process.

¶12. (SBU) With the 2009 set to be presented to parliament within days, there are increasing concerns expressed by the GDRC, World Bank and IMF that budgetary resources will be insufficient and that the GDRC will have difficulty in servicing debts to the World Bank and IMF. Failure to reach agreement with the IMF on a new Poverty Reduction and Growth Facility (PGRF) would further delay \$11 billion in debt relief under the Highly Indebted Poor Countries program, could impede assistance by the World Bank and other major donors and may be economically and politically destabilizing. Post recommends support for flexibility in World Bank financing, including increasing resources or closer attribution of financing to the GDRC budget. Post also supports the IMF's position that debt sustainability issues regarding China's loans must be resolved prior to approval of a new PGRF. End Comment.

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